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***eBook***

7 Strategies to  
Enhance Vendor  
Management

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# Table of Contents:

Vendor Management Overview	2
Vendor Management Challenges	3
Benefits of Improving Your Vendor Management	5
Seven Vendor Management Strategies	7
1. Embrace Technology	7
2. Select the Right Partners	9
3. Use of Data and Analytics	10
4. Alignment of Stakeholders	11
5. Vendor Segmentation	12
6. Education and Training	13
7. Risk Management	14
The Bottom Line with Vendor Management	15

## Vendor Management Overview

As an organization, it is easy to become preoccupied with output. After all, what you produce is a huge part of your success. However, all production must be paired with procurement. This is why vendor management plays a critical role in your organizational success.

Vendor management is an organization's ability to oversee all contact with third-party vendors. With a successful relationship, vendors can help your organization meet customer demand and streamline supply chain execution for improved production and profit. However, in order to see real gain from this strategy, such contracts must be managed appropriately. This is where vendor management comes into play.

Vendor management operates on two tiers. First, organizations need to select their preferred vendors. After choosing their preferred vendors, a strong relationship must be maintained moving forward. Vendor management provides this ongoing assessment to promote ease within the working relationship and to guarantee that value continues to build in the relationship.



Clearly, the role of vendor management has become increasingly complex in the modern world. As technology advances, many organizations are relying on more third-party vendors than ever before. Additionally, the global scale of the economy has made it possible to look at vendors from all over the world. These complications are not insurmountable, however. In fact, with new strategies, it is possible to make your vendor management more effective than ever.

## Vendor Management Challenges

Given the wide scope of vendor management, it is no surprise that there are a number of critical challenges that organizations must address. Being aware of these challenges allows you to take a proactive approach. This ensures results at all stages of the process

### **Resistance to Change**

A recent survey conducted by APQC and Supply Chain Management Review (SCMR) revealed that almost half (48%) of Supply Chain professionals believe that 'resistance to change' is their primary hurdle to achieving widespread deployment of Supply Relationship Management.

Organizations are notoriously slow to change, and this reluctance often starts at the executive level. Your organization may say that it wants meaningful relationships with vendors, but unless it is willing to make the changes necessary to support those relationships, the venture will be limited. To overcome such resistance, education about vendor relationships is paramount. It is imperative to include management at all phases of the procurement process.

### **Lack of Understanding**

Many problems stem from the fact that vendor management is not often well understood. Simply put, vendor management is not something that most organizations focus on. This leads to a lack of training for employees, resulting in an overall lack of competency in this area. Deloitte's Global Chief Procurement Officer Survey 2019 found that 54% of procurement leaders do not believe that they have the capability in their teams to deliver their strategy, an increase from 51% in 2018.

Therefore, in order to see success through vendor management, your organization must invest in education. Only with proper training and resources will your organization ever be prepared to successfully manage relationships with vendors.

## Too Much Focus on Costs

The first primary challenge is one of perspective. As mentioned, third-party vendors are often used for savings. However, it would be a mistake to focus on cost when assessing your relationship with vendors. Just because vendors offer the lowest prices does not mean that they are the best value.

Research by PWC, found that the majority of Procurement professionals (22%) stated that 'Too much focus on costs instead of value' as their primary challenge when implementing vendor relationship management. Instead of looking solely at the price of a good or service, look at the value you are getting. Value is a more comprehensive approach, considering both the cost and the quality of the results from the relationship.



## Benefits of Improving Your Vendor Management

With this overview of what strong vendor management can do for your company, you now have a choice to improve your own management style. There is no doubt that such improvements can be daunting, which is why some organizations resist the process.

According to Level Research, the top three goals that organizations strive for in their management of vendors are *increased supply chain efficiency, improved supplier relations and reduced risk/improved compliance*. When you fully commit to your vendor management, such goals become far more achievable.

### Top Goal for Managing Suppliers



### Increasing Supply Chain Efficiency

First, you should improve your vendor management to maximize your supply chain efficiency. By getting the most out of every part of the supply chain, you can ensure that there are no gaps.

This is an improvement in both time and money, and it helps you better understand the way your company functions on a minute level. This efficiency lends itself to sustainability. Only when you understand the nuances of your supply chain can you make sure that it is able to endure.

### **Improving Vendor Relationships**

Another reason to prioritize vendor management is the relationship itself. A good relationship with your vendor is more important than you might realize. In the same way that a buyer will prioritize certain vendors, vendors can prioritize or deprioritize a buyer, which will inevitably lead to varying quality of service. When you have strong connections to a vendor, then you can be more confident that needs will be met. More than that, needs can be anticipated.

When something goes wrong, you can have confidence that a solution will be addressed promptly. A good relationship should always be mutually beneficial, and with vendor management strategies in place, you can make sure that your relationship is worth more than the terms of your contract.

### **Improving Response Times to Vendor Queries**

As these gains mount, other inherent changes can occur. As you improve your vendor management with better efficiency, streamlined relationships, and superior products, you will also see reduced risk in your business model. These improvements will yield superior response time and overall cost reductions. These results are practical reasons that substantiate any investment you make in vendor management. Best of all, these reasons continue to have a domino effect on all other parts of your business, which means that an improvement in your vendor management is an improvement in your organization at large.

## Seven Vendor Management Strategies

If you are ready to take your vendor management to the next level, then you need some practical applications. Vendor management has to move from conceptualization to reality. To make this happen, consider these innovative vendor management strategies for your organization.

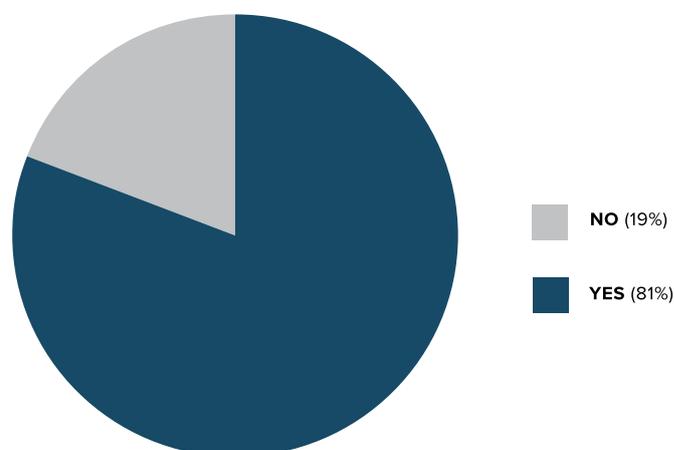
### 1. Embrace Technology

Technology has changed the way business operates from the top to the bottom. Therefore, it should be no surprise that it can have a significant impact on your vendor management. Technology in this sector can exist on two levels. The first is automation. There are technologies available that can track your inventory, which means these technologies can also automate orders for resupply. You can also rely on automation to determine how much product is needed in a given order. These functions streamline the process and eliminate wasted time and money.

The second main way to employ technology is transparency. As technology tracks your supplies and your expenditures, you will be able to see exactly where your time and resources are being allotted. Consider technologies for vendor onboarding, data management, PO tracking, and vendor communication. These innovative technologies give you the full scope of information needed to make the best decisions possible for your organization and improve vendor relations.

According to survey results, 81% of organizations report improvements in vendor relations following the implementation of supporting technology.

**Improvement of Vendor Relationship Post Implementation**



As you look into new technologies, consider the options in terms of their comprehensive features. You want a technology that integrates as many features as possible in order to streamline the process. New technologies can be difficult to learn, which is why you want to avoid having too many to master. A dynamic system for vendor management should be able to provide the versatility you need.

## 2. Select the Right Partners

Picking the right technology is important. Picking the right partners, however, can define success for your organization. Start by accurately assessing the capabilities of your potential vendor. You need to know precisely what the vendor can provide and how its goods or services will be supplied. Do not merely take the vendor's word for it. Instead, look at its previous interactions and the capacity of its workforce. You need to make sure that the vendor has the ability to meet your needs otherwise, the partnership will be doomed from the start.

After determining that the vendor has the capacity to meet your needs, make sure you put the details of your relationship into writing. You should always have a strong contract that explicitly states what the vendor will provide. Details like delivery times, order specifications and cost should all be included in the contract. The contract can ensure that there is clarity on both sides of the relationship. A good contract is the best way to promote a good working partnership with your vendors.

Finally, make sure to monitor the partnership. Trust is important, but this is a business arrangement. You have to show that you are actively involved with the partnership. Do not be afraid to conduct spot checks in order to make sure that supplies are arriving on time and as specified. Your vendor needs to see that you are aware of the details in order to be held accountable to those details. From time to time, you should even conduct audits to assess the nature of the relationship.

These steps can help you choose the right vendors while ensuring an ongoing relationship that is productive and valuable. If the steps show that a vendor is failing at any of these points, do not be afraid to consider new relationships. There are many vendors available to you, which means you should not feel limited.

### 3. Use of Data and Analytics

The use of analytics is nothing new in business. However, with new technologies, it is easier than ever to have access to the data you need to make the best decisions. These decisions should directly impact your vendor management.

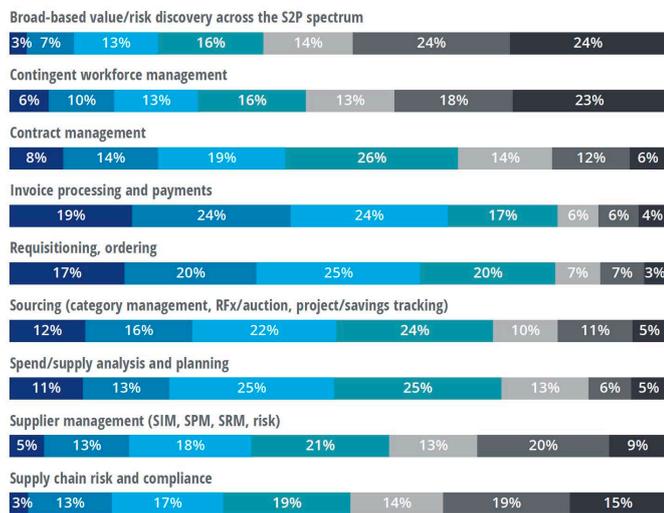
As reported by Deloitte, there are several technologies that are beginning to impact procurement and the one technology being adopted by most with further plans for scaling up is that of *spend analysis*.

FIGURE 2

#### Most CPOs are adopting technologies to automate core workflows

To what degree are modern digital technologies being used to enable the following processes?

- Completely—working well
- Completely—but not that satisfied with results
- To a large extent—mostly in place
- To some extent—scaling up
- To a small extent—piloting
- Not yet—but evaluating
- Not at all—not planning to use



Source: Deloitte Global CPO Survey, 2019.

With spend analysis, companies look carefully at the places where money is being spent in order to make the best decisions for saving. You should build up a procurement system with your vendors that automatically documents the expenditures in order to streamline this process.

When trying to implement analytics for vendor management, look for a system that provides consolidated and standardized results. You want all of your spend data in one place, and you want it all to be translated into comparable figures. If possible, try to find a program that allows you to group and sort your expenditures in order to look at overall areas of spending within your organization.

The result of quality spend analytics is immediate. With clarity from the numbers, you can look for direct methods of saving. Moreover, you can use this data to assess your overall dependency on vendors and the risk those vendors may represent. Use your data to see how your vendors are performing against agreed terms and make swift decisions on those not acting compliantly.

#### **4. Alignment of Stakeholders**

In order to see the most gain from your vendor management, you need to make sure that your relationships with vendors are collaborative. Your working relationship with a vendor should be a two-way street. If it is not mutually beneficial, then it is going to be subject to strife going forward. Equal collaboration between vendor and the organization will ensure that everyone feels appropriately invested in producing the best outcome possible.

This alignment should occur by being transparent about the overall goals of the relationship. This becomes even more important as your supply chain grows. If you are trying to organize multiple vendors, then you need to make sure that all parties are aware of the part they play. As the central party, it is your job to manage the flow from one vendor to the next in order to make sure that all the working parts come together.

This requires ongoing communication and constant analysis. You will want to make sure that this oversight is given to the most relevant groups within your company. For example, your Planning department may oversee certain elements of procurement. However, input from Quality Control should also be consistent. It is best to be explicit about these levels of input in order to make sure that alignment is achieved.

## 5. Supplier Segmentation

If you are working with a number of vendors, then segmentation is necessary. With vendor segmentation, you are dividing your vendors into logical groups. This grouping facilitates procurement and streamlines communication. Segmentation should look at what the vendor provides and how the vendor's services fit into your overall business model.

For example, some vendors are strategic while others are essential to your business. These two segments must be handled differently, and your endgame for each segment will be distinct. You expect something different from a strategic partner compared to a business-essential partner. As you assess your relationships with vendors, you need to do so with the framework provided by segmentation. This is the only way to truly assess the value provided by the vendor.

One of the most accurate frameworks for segmenting vendors is the Kraljic Matrix, devised by Peter Kraljic in 1983. In this, he argued that supply items should be mapped against two key dimensions: risk and profitability.

Risk refers to the likelihood of an unexpected event occurring within the supply chain that will lead to disrupted operations. Profitability describes the impact of a supply item on the bottom line. Organizations using this strategy will likely have been more prepared for the supply chain disruptions that the Covid-19 pandemic has caused and in a better position to react accordingly.



## 6. Education and Training

Quality vendor management is about more than theory. There must be application within the daily operations of your organization. Unfortunately, by most estimates, the workforce is woefully unprepared for this task. According to Deloitte's Global Chief Procurement Survey 2019, up to 54 percent of procurement leaders lack faith in their teams to implement their goals.

Are the skills and capabilities of the current team at a sufficient level to deliver your procurement strategy?

■ Yes ■ No



Source: Deloitte Global CPO Survey, 2019.

This may seem discouraging, but it is merely an opportunity for education and training. Vendor management can be taught, and employees can be trained with the right skills for the job. To do this, first identify the competencies you value most. Teach your employees to think about strategic relationships, and provide the necessary training on the technologies used to monitor those relationships. All employees should understand the expectations in vendor management in order to make it a part of your overall organizational culture.

## 7. Risk Management

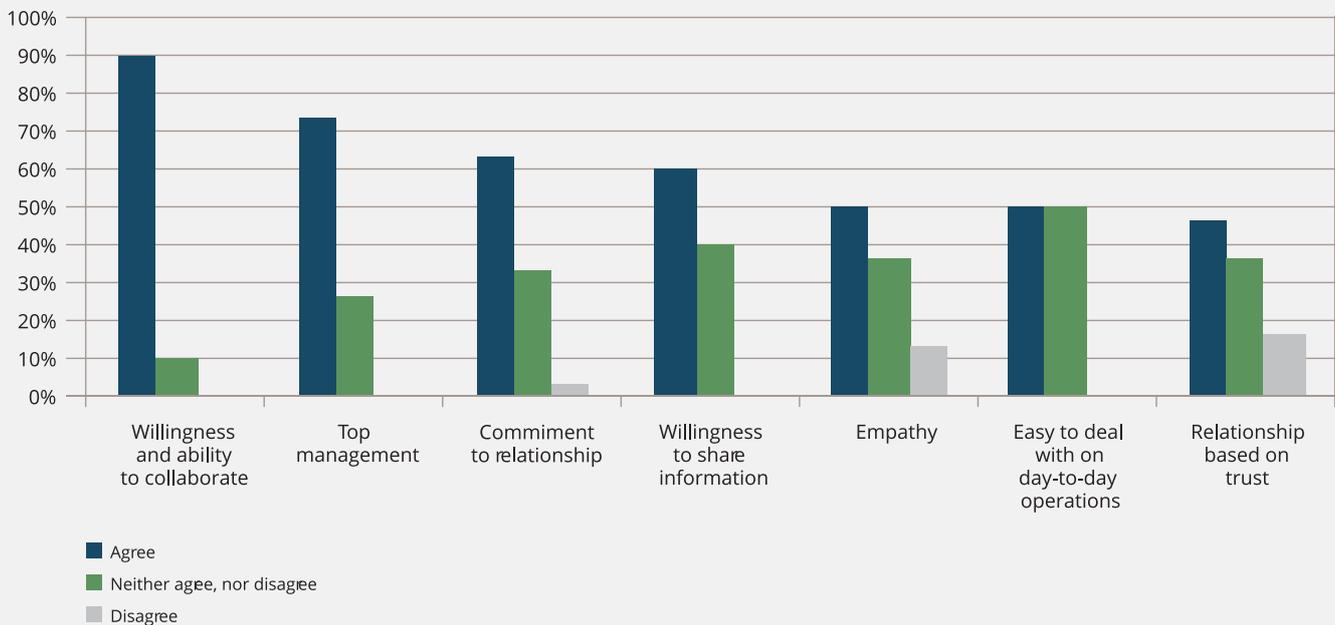
The final strategy for vendor management is all about risk. There is risk inherent in every decision you make, but you need to be aware of the risk in order to manage it properly. In vendor management, you want to mitigate the risk of supply failure. In supply failure, the vendor is unable to provide for your needs. This may be due to a lack of resources. It may also be an error on your part in terms of placing improper orders.

To keep these risks in check, consider the other strategies that have been discussed. Proper data analysis can make sure that your procurement requests are accurate, and maintaining a good relationship with your vendor can ensure that your needs are never left unfulfilled. However, you should make sure that risk is a part of your mindset. Always be aware of potential weaknesses within the supply chain in order to prepare the necessary countermeasures

## The Bottom Line with Vendor Management

Vendor management looks at what is coming into your company in order to maximize what comes out. Too many organizations are not equipped to maintain this process properly, and this is a detriment to their efficiency and profits.

Studies conducted by PWC show that some key competencies are required in order to get the most out of your vendor management initiatives. These include a willingness and ability to collaborate (90%), top management of suppliers (73%), commitment to the relationship (64%), a willingness to share information (60%), empathy (50%), easy to deal with on day-to-day operation (50%) and a relationship based on trust (47%)



You should fully understand what vendor management is and how it can help your organization succeed. Embrace the reasons for vendor management in order to choose the strategies that best match your organizational goals and work on ensuring your procurement team are equipped with the key competencies to initiate them. With this comprehensive approach, you can successfully use vendor management to boost your overall production.

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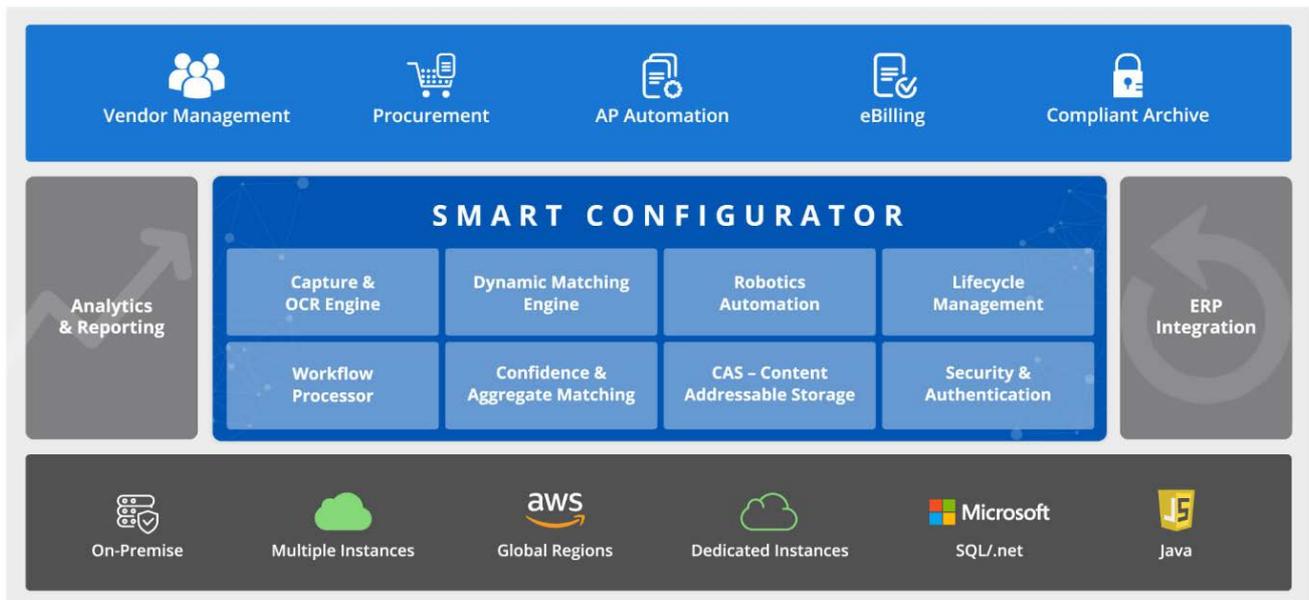
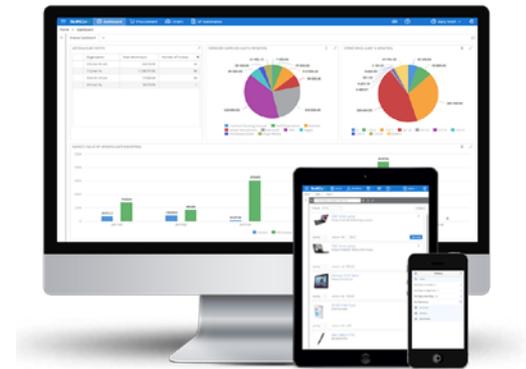
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